

Washington, D.C. 20505

15 October 1982

Dear Leo,

Attached per our discussion.

Yours,

*Bill*

Attachment:  
The Crisis in International Finance

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The Crisis in International Finance

## KEY JUDGMENTS

1. A crisis of confidence in international lending is drastically curtailing the flow of capital to Less Developed Countries. At a minimum the LDCs will have to make strenuous economic adjustments. At worst these required adjustments may be so severe as to disrupt economic activity and spur a political backlash against Western governments and financial institutions.

2. For the first time, the handful of LDCs that account for the bulk of the group's borrowing from foreign banks either cannot or are in the imminent danger of being unable to meet their debt service obligations. LDCs have been hit hard by the lengthy industrial country economic recession and high real interest rates. Some oil exporters--Mexico, Venezuela, Nigeria, and Ecuador--face serious financial difficulties because of inability to adjust their profligate spending habits to the new oil market realities. The plight of others, especially Argentina, has been made worse by political instability and economic mismanagement. Under the best of circumstances, it will take many LDCs at least two years, and in the case of Mexico and Argentina much longer, to regain a strong enough foreign financial position to allow a renewed growth of imports.

3. Events in Argentina and Mexico have transformed the debt problem from one which could be treated as reflecting deficiencies of policies and management in a few countries to one which involves the health of the

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